

ECONOMIC TRANSFORMATION

4



Employment Creation, Economic Growth and Structural Change:

STRENGTHENING THE PROGRAMME OF RADICAL ECONOMIC TRANSFORMATION

1. INTRODUCTION

At the ANC's 53rd National Conference at Mangaung in 2012 it was resolved that: *"[W]e are boldly entering the second phase of the transition from apartheid colonialism to a national democratic society. This phase will be characterised by decisive action to effect economic transformation and democratic consolidation, critical both to improve the quality of life of all South Africans and to promote nation-building and social cohesion."*

In order to advance economic transformation, the ANC resolved, at Mangaung, as follows:

- To promote growth and development and eradicate the triple scourge of unemployment, poverty and inequality,
- To increase State-led infrastructure investment aimed at massively improving social and economic infrastructure, with an emphasis on the use of local content and local companies,
- To give effect to the National Development Plan (NDP), and the New Growth Path and the Industrial Policy Action Plan with the aim of stimulating growth, employment and the re-industrialisation of the South African economy.
- To transform the mining sector with the aim of widening the benefits of South Africa's abundance of minerals, including the creation of safe and

decent work on the mines as well as benefits for near-mine local communities, as well as give particular focus to mineral beneficiation.

- To promote youth employment, small business and co-operatives.
- To build a developmental state with the technical and political capacity to lead development and transform the economy.
- To maintain a supportive macroeconomic policy framework, oriented towards reconstruction, growth and development, and informed by the imperatives of sustainability and long-run macroeconomic stability.

As the ANC prepares for Policy Conference and National Conference in 2017 it is important to take stock of the economic conditions locally and globally and to make an assessment of progress made in advancing economic transformation. Such an assessment must be done against the ANC's historic and revolutionary mandate to transform South Africa from a society damaged by the injustices of colonialism and apartheid to a truly non-racial and non-sexist society, characterised by social justice and increased opportunity, particularly for black South Africans. The ANC remains unwavering in its objective to fundamentally change the racialised and unequal structure of the South African economy and of society. Since 1994 many millions of South Africans have materially benefited from such ANC-led

interventions as those to improve labour standards, increase access to health, education and housing services and create new economic opportunities. In the current phase of our struggle, the ANC is committed to accelerating and consolidating the processes of economic transformation to ensure that we are able to more effectively touch the lives of those millions of mainly black South Africans who have not yet experienced the betterment of life which held such promise at the dawn of our freedom in 1994.

The ANC is united in the conviction that in order to achieve the goals of the second phase of the transition, guided by the overall vision outlined in the NDP and our various programmes and policy resolutions, we must strengthen the transformative capabilities of South Africa's democratic state. The democratic state and its state owned companies must be fully empowered to drive large-scale infrastructure investments and expand access to public services in such a manner as to effectively open up new economic opportunities for ordinary South Africans – as citizens, as workers, as entrepreneurs and as businesses leaders.

For more than twenty years, the ANC's economic policy interventions have moved South Africa decisively towards a more inclusive society, as millions of people have been brought into the economy's mainstream. This process is ongoing and much further work is required to improve the lives of the millions who continue to live in poverty and despair. The most effective way to overcome these challenges is to move the South African economy onto a path of inclusive growth and employment creation. It is through changing the structure of the South African economy that inclusive growth will become possible. Inclusive growth cannot occur if those who are excluded are not given fair access to economic opportunities.

To be truly inclusive, economic growth requires structural change. This understanding can be traced back to the Freedom Charter, adopted in 1955, which states that all people in South Africa should enjoy **“equal rights and opportunities”**, including that:

- **“the people shall share in the country's wealth”;**
- **“the land shall be shared among those who work it”;**
- **“there shall be work and security”;**
- **“the doors of learning and culture shall be opened”;** and
- **“there shall be houses, security and comfort”.**

The ANC recognises the dialectical and reinforcing nature of the relationship between economic growth and human development. Inclusive growth must necessarily create opportunities for those who are excluded, but also it is by creating new opportunities

for those who are excluded that growth becomes truly inclusive. Historical experience indicates that viewed through the lens of political economy, economic growth can take different forms – including super-exploitative growth, such as during the apartheid-era's system of racialised capitalism; futureless growth, which is environmentally destructive, and rootless growth, in which indigenous cultures lose out to global forces of cultural imperialism.

The ANC is committed to managing the South African economy in such a way as to promote employment-creating inclusive growth. This is fundamentally necessary if South Africa is effectively to overcome the structural economic inequalities inherited from South Africa's colonial and apartheid past. South African society is underpinned by a colonially-structured economy and racial capitalism. Without effective structural interventions, the system will continue to reproduce racialised poverty and inequality. The need for systemic interventions requires that the democratic state make corrective, structural interventions which will not only be growth-enhancing, but which will also ensure that the pace and pattern of economic growth will unswervingly move South Africa towards a thoroughly non-racial and non-sexist society. The ANC seeks to unite all South Africans, black and white, behind this vision of radical economic transformation, as a prosperous, inclusive economy is in the best interests of the nation as a whole.

Primarily, radical economic transformation is about fundamentally changing the structure of South Africa's economy from an exploitative exporter of raw materials, to one which is based on beneficiation and manufacturing, in which our people's full potential can be realized. In addition to ensuring increased economic participation by black people in the commanding heights of the economy, radical economic transformation must have a mass character. A clear objective of radical economic transformation must be to reduce racial, gender and class inequalities in South Africa through ensuring more equity with regards to incomes, ownership of assets and access to economic opportunities. An effective democratic developmental state and efficiently run public services and public companies are necessary instruments for widening the reach of radical economic transformation enabling the process to touch the lives of ordinary people.

Overall, the ANC's programme to transform South Africa's society and economy must be judged on the extent to which it radically and systematically improves the lives and opportunities of those who are marginalised and excluded. As stated by President Zuma during the 2017 State of the Nation address, by radical

socio-economic transformation “we mean fundamental change in the structure, systems, institutions and patterns of ownership, management and control of the economy in favour of all South Africans, especially the poor, the majority of whom are African and female.” Rather than radical-sounding rhetoric, it is the content, outcome and pace of the ANC’s programme of social and economic transformation that will bear testament to the radical nature of such a programme.

To advance this vision, the democratic developmental state will need to be decisive in allocating sufficient resources to effective transformation programmes, within a sustainable fiscal framework. The state will also be required to monitor the implementation of such programmes and improve and reform such programmes where necessary. South Africa currently has a significant leakage of state resources, which has the effect of reducing the finances available for economic transformation. More must be done to stamp out corruption and wastage. Furthermore, proposals for new transformation programmes must be cognisant of the reality that resources are always finite and are particularly scarce when the rate of economic growth is slow. In order to fund new programmes or expand existing programmes, therefore, it will be necessary to recommend the de-prioritisation or discontinuation of other programmes, which are not having the desired policy impact.

In order to sharpen the ANC’s model of socio-economic transformation, a package of decisive policy interventions is required. This package of policy interventions must be capable of achieving the following objectives:

- **Reducing unemployment and youth unemployment**
- **Returning land to our people and supporting land reform**
- **Increasing black ownership and control in the economy**
- **Activating small businesses and co-operatives**
- **Raising the level of investment**
- **Strengthening social justice and conditions for the poor and working class**
- **Improving the employment impact of infrastructure projects**
- **Reducing inequality and poverty**
- **Dismantling monopoly practices and structures**
- **Asserting South Africa’s interests in the global economy**
- **Improving integration into the African economy**
- **Stimulating inclusive growth.**

Reducing unemployment and youth unemployment

The problem of youth unemployment must be alleviated by massively increasing youth access to vocational training and apprenticeship programmes. A well-designed system of vocational training and apprenticeships, in combination with public service youth brigades, will save many young people from unemployment and better prepare them with skills needed in the work place, including entrepreneurial and small business skills. This is a particularly crucial response to the job-shedding dynamics of what has been termed the Fourth Industrial Revolution, which manifests skills-biased technological change and which threatens to leave many young people out of employment. Working together business, government and labour must create up to 1 million internships in order to bring more young people into the labour market. Vocational training must be proclaimed as the official ‘developmental mandate’ of all large State-owned companies, many of which have the management capability to design and operate large-scale training and short-duration employment schemes. Infrastructure programmes and municipal programmes must include set asides for labour-based work programmes. Consideration should be given to expanding the tax incentive for employers that employ young people, based on a detailed assessment of the impact of the current incentive.

Returning land to our people and supporting land reform

ANC policy commits government to returning land to our people and due to this commitment South Africa’s Constitution mandates that land reform must take place. The Constitution’s commitment to ‘just and equitable’ compensation for the acquisition of land for land reform purposes should be codified and should replacement for market-based valuations of land. The process must be facilitated and accelerated by the passing of updated expropriation legislation by Parliament. Government should take heed of the Constitutional Court’s finding that agreement on the quantum of fair compensation is not a pre-condition for land redistribution to take place and should never pay a premium in purchasing land for the purpose of land reform. In general, the success of land redistribution will be improved if there is greater oversight over land, farming equipment and technical skills transfer to the beneficiaries of land reform. Substantial investment in irrigation infrastructure is required, as is the resolving of water rights and the control over the allocation of water rights, and as is greater investment in innovative market linkages for small-scale farmers in communal and land reform areas. Furthermore, institutional capacity needs to be improved with regards to accurate record keeping and the removal of uncertainties with

regard to the roles of various overlapping public sector bodies involved in land reform.

Increasing black ownership and control in the economy
The imperative of ensuring increased black ownership and operational control in the economy must be achieved through a wide range of instruments. Priority must be given to ensuring black ownership in emerging new sectors of the economy, such as, the potential that surrounds the development of new gas sector as a large-scale energy source for South Africa, as well as the potential to take forward new opportunities linked to South Africa's Ocean economy as revealed through the work of Operation Phakisa. Also crucial is the effective enforcement of the revised BEE codes across a range of sectors. In this regard, notable progress has been made in the construction sector in the recent period, which is to be given greater impetus by government's programme to 'Turn South Africa into a Construction Site'. Relatedly, transformation of the property sector will be further accelerated by the passing of legislation such as the proposed Property Practitioners Bill, which among other things aims to increase the participation of black people in the real estate sector. Pressure must continue for the transformation of the mining sector through the implementation of the recent amendments to the MPRDA. This process will also be enhanced through processes to reduce investor uncertainty in the mining sector and correct weaknesses in the mining licensing process. In manufacturing, the black industrialists programme is underway with funding having been provided to industrialists working in amongst other the medical manufacturing sector. This process can be further enhanced through progressive measures that seek to leverage steady-state government procurement, as well as public investment programmes to support economic transformation. The consolidation of development finance institutions, such as the merger of the National Empowerment Fund (NEF) with the Industrial Development Corporation (IDC) will provide increased leverage to open the economy to new players and provide black South Africans with enhanced economic opportunities.

Activating small businesses and co-operatives

Many black entrepreneurs would be more successful if they had some form of targeted financial support, including tax breaks, and improved market access. A targeted programme should be put in place to assist black entrepreneurs in setting up small businesses and co-operatives. This would fill a gap at a level below assistance currently offered to Black industrialists. Supply chains in the public and private sectors, including in the retail sector, should be opened up to small and medium sized black business. Creating improved visibility of market opportunities should be prioritized

using information technology tools.

Raising the level of investment

The NDP envisages that combined investment by the private and public sectors rise from current levels of around 19% of GDP to 30% of GDP. Policy certainty is key for long-term investment. Concerted efforts are required at eliminating policy uncertainties unwarranted regulatory hurdles. Government should conduct an audit of the policy and regulatory constraints to investment and set a clear timeframe for addressing them, linked to Ministers' performance contracts. Confidence in the South African economy can be improved by credible programmes of employment creation and racial transformation, which enhance long-run stability. In the immediate term, investor confidence will be boosted if the rising national debt is brought under control, if South Africa maintains its investment-grade credit rating, if good governance of state owned enterprises is achieved, if international norms and standard are maintained with regard to the regulation of the financial sector and other sectors. The multiplier effect of government and public sector infrastructure investments will increase as investor confidence in the economy rises.

Strengthening social justice and conditions for the poor and working class

Confidence must also be built among the ANC's core constituency through the improvement in the quality of public education and health services, through reliable and affordable public transport services, through the knowledge that the private sector is regulated in such a manner so as to avoid unfair competition, price-fixing and unfair labour practices, and through the knowledge that systems are in place to expose corrupt practices and prevent corruption from taking root. In order to better protect working class interests in the face of the threat of informalisation, labour market regulations should be more effectively enforced. In particular, any attempts by unscrupulous employers to use loopholes to abuse the recently promulgated regulation of labour-broking activity should be urgently dealt with.

Improving the employment impact of infrastructure projects

South Africa's ongoing large-scale investment in electricity, rail, water and transport infrastructure is key to the economy's transformation. In order to maximize employment multipliers, as well as skills transfer, a greater emphasis must be given to localisation, that is, sourcing inputs locally rather than from abroad. Where appropriate, set-asides should be put in place in order

to ensure that contracts are made available for black-owned companies and to promote broad based black economic empowerment.

Reducing inequality and poverty

Increased access to employment will reduce income inequality. As will the implementation of a minimum wage to improve the earning of low-income workers. Increased access to efficiently-delivered, subsidised basic services as well as social grants also assists in bringing many poor households above the poverty line. South Africa's system of social grants must be defended and run efficiently and seamlessly and as such grants provide a key lifeline for poor families.

Dismantling monopoly practices and structures

Strict enforcement of competition legislation aimed at stamping out monopolistic practices is required. Some progress has been made by the competition authorities in this regard and such interventions should be intensified. As stated by President Zuma during the 2017 State of the Nation Address, the Department of Economic Development is mandated "to bring legislation to Cabinet that will seek to amend the Competition Act. It will among others address the need to have a more inclusive economy and to de-concentrate the high levels of ownership and control we see in many sectors.... In this way, we seek to open up the economy to new players, give black South Africans opportunities in the economy and indeed help to make the economy more dynamic, competitive and inclusive." Price-fixing and other anticompetitive practices should be stamped out through-out the economy. In line with this commitment, the ANC welcomes the investigation by the Competition Commission into alleged price-fixing and market allocation in foreign exchange trading by a number of banks and currency traders. Similarly, the ruling against anti-competitive conduct by state-owned entity SAA is also welcomed as a decisive step against monopoly practices in South Africa. Furthermore, the ANC should mandate a detailed investigation into the underlying structure of the economy in order to recommend ways to reduce and remove barriers to entry and dismantle monopolistic and oligopolistic structures in certain key sectors. For example, a state-owned Bank, possibly based on a transformed Post Bank, can serve to widen access to banking services for many and can assist in changing the structure of South Africa's financial sector.

Asserting South Africa's interests in the global economy South Africa must improve the way in which the country articulates and asserts its economic interests

in the global economy. Globalisation has assisted South Africa to gain access to capital inflows, expanded markets for exports and new technologies. Global trade has made certain imported goods more affordable for consumers. Nonetheless, South Africa must assert its right to change the overall structure of its economy from one based mainly on colonial extraction to one based on production and the expansion of its domestic industrial and services. The scale and scope of research and development (R&D) must be increased so as to facilitate the development of new products and technologies, such as, the ongoing effort to facilitate an advance in platinum beneficiation, through collaborative R&D around the application of new fuel cell technologies. Space must be found in the context of global and regional agreements and commitments, such as, the WTO, the EU-FTA, SADC, AGOA to allow for the development of new industries, and research and development activities, as well as to offer some protection to vulnerable industries. With regard to international financial flows, effective mechanisms must be put in place to stem illicit capital flows from South Africa and Africa more widely.

Improving integration into the African economy

An overriding priority should be to work to promote African regional integration. South Africa's economic policy should be more integrated with the African region. Practically, this means taking steps to enlarge the free trade areas (FTAs) existing in SADC and other regional economic communities into larger more expansive FTAs. The aim of this would be to promote more intra-African trade and support industrialisation through the creation of large regional markets. All aspects of South Africa's economic planning should include a regional focus - whether it means striking agreements with Mozambique on South Africa's access to the country's gas reserves, or with Lesotho on water reserves, or with Botswana, Zambia, Zimbabwe and the DRC on power, or whether it is about sourcing cheaper chicken feed from South Africa's neighbours to improve the competitiveness of the country's poultry industry, or increasing exports into the region of manufactured goods, food stuffs and services, including financial services.

Stimulating inclusive growth

All of the above interventions will assist South African to move on to a more inclusive growth path. Inclusive growth can only be delivered by the programmes of a democratic developmental state. The ANC is acutely aware of the fact that economic growth is a necessary, but not a sufficient condition for an effective programme of economic transformation. Growth, on

its own, is not always inclusive. To be inclusive, growth must combine growing GDP per capita, with increasing levels of employment, expansion of productive activities and massively increased opportunities particularly for black South Africans. Well-conceived and well-executed transformation programmes are necessary to improve the quality of growth. On the other hand, as has been seen in recent years, the possibility of mass-based economic transformation is severely retarded by low levels of economic growth. Therefore, growth-enhancing elements, such as, reduced red-tape, increased investor confidence, the maintenance of an investment grade rating, the limiting of monopolistic practices and structures and policy certainty in key areas, such as, mining and infrastructure expansion, should be regarded as necessary components of South Africa's overall transformation programme.

2. DEFENDING THE ANC'S VISION OF A DEVELOPMENTAL STATE

During the national liberation struggle the ANC's strategic objective was the transfer of state power into the hands of the democratic majority. The focus in this phase of our struggle must be to build an effective developmental state capable of transforming social and economic relations in South Africa.

Guided by the NDP, the developmental state's most important task is to grow the South African economy as rapidly and as inclusively as possible. Through the various legislative, regulatory and programmatic instruments at its disposal the developmental state must seek to build public sector capabilities, provide parameters for the operation of market forces and guide the workings of private and state capital. This will result in the creation of new economic relations, which will enable more South Africans to achieve their true human potential.

A key insight of the logic underlying the theory of the developmental state is that neither the state nor market forces working on their own will be able to achieve the desirable outcomes associated with inclusive growth. Working together, and guided by a developmental vision, the state and market forces have the transformative potential to sustainably improve the living standards of millions of South Africans.

The ANC's vision of a developmental state is rooted in the realities of South Africa's mixed economy, informed by the fundamental insight that the inclusive reconstruction and development of South Africa requires a vibrant mixed economy in which there is a synergistic and mutually re-enforcing relationship between the public and private sectors.

Some of the objectives of the developmental state are to affect socio-economic transformation, reduce inequality, deracialise the economy, ensure state participation in strategic sectors including partnership with the private sector, deepen BEE, advance employment equity and increase level of black men and women participation as employees. Furthermore, an effective developmental state is required to correctly incentivise private sector behavior, including clamping down on anti-competitive behavior and the promotion of competitive markets to open up the economy for new players; strengthening the monitoring of labour protections, employment equity requirements and BEE compliance; identifying and removing regulatory areas that impede private sector investment; and collaborating to ensure increased export of manufacturing goods and service.

An economy operating in this fashion will benefit consumers, employees and the fiscus. The developmental state's programme of economic transformation will be self-sustaining, through its interventions it will seek to expand the quantum of resources and human capital available for inclusive developmental programmes and interventions. Despite the superior political and economic logic of the ANC's vision, the developmental state has come under continual ideological attack. The ANC's political opponents on the right have resisted interventions aimed at increasing the state's role in guiding the process of economic development. On the other hand, populist voices have sought to dismiss the ANC's programme as not radical enough, often calling naively for nationalisation as a panacea for all ills.

For example, after the dawn of democracy in 1994 and in line with the promise of the Freedom Charter the ANC-led government returned all mineral rights to the state and mining companies had to apply for licenses to embark on mining and exploration activities. The ANC's policy was aimed at regulating mining in such a manner that promoted black economic empowerment and the interests of near mine communities, and also created a workable framework to promote and increase levels of private sector mining activity in order to create jobs, and stimulate investment and exports in this important sector. The ANC's objective was to encourage, but also to regulate, private sector activity in order to create employment and wealth and to promote social and economic transformation. Broadly this model has been successful, even though at times it has been hampered by negative economic conditions and by subjective weaknesses in the administration of the mining license system, which should be expeditiously corrected.

Despite the correctness of this approach, ideological

opponents on the right opposed this re-regulation of the mining industry, with a small mining company even seeking to mount a legal challenge. On the other hand, populist calls for the nationalisation of mining operations were roundly rejected at the ANC's Mangaung Conference, as it was clearly understood that such policies would lead to massive job losses in the mining sector and severely damage South Africa's fiscal position. Similarly, self-interested, right wing forces oppose affirmative action and black economic empowerment, despite the fact the promise of South Africa's national liberation necessarily requires that the composition of business owners and managers must be widened to include blacks people in general and Africans in particular.

Populist forces, seek to totally reject paying for services, such as, road upgrades, municipal services and university fees, despite the fact that such payment systems are based on the logic of cross-subsidisation from the rich to the poor. By paying, those who can afford to pay for services, allow the state to focus increased assistance and resources for those who can less afford to pay, such as, taxi passengers on toll roads, indigent households needing water and electricity services and university students who cannot afford to pay fees. Such solidarity-based payment systems underpin many public infrastructure and public service initiatives that have been rolled-out by the ANC-led governments at various levels. In fact, solidarity-based cross-subsidisation has enabled the extension of services to poor households much more effectively than any populist campaign for non-payment for services could ever achieve.

Any dismantling of such cross-subsidisation systems will lead to increased inequality, as those who can afford to pay will not be required to pay for services. Overall, it would also lead to less resources being available for the development of public infrastructure and services, which in turn will lead to a rising scarcity of such infrastructure and services, particularly for the poor. Ultimately, the approaches of populist and right wing forces will, from different starting points, lead to the same result – the effective diminution and privatisation of public infrastructure and services. The approaches of populist and right wing forces will lead to a severe reduction of the potential of developmental state, as they would severely limit the mobilisation and redistribution of society's resources from the relatively well-off to the relatively poor.

The ANC should more forcefully defend its ideological position regarding the role of the developmental state as well as the inherent economic logic of its programmes to redistribute wealth, income and opportunity. The

ANC should seek to explain with increased vigour how poor households in South Africa would suffer severe negative consequences if the policies of either the privilege-protecting right wing or of populists were to be adopted.

3. REVIEW OF MACROECONOMIC POLICY STANCE

Since the global recession of 2008-09 South Africa has experienced a prolonged period in which the performance of economic growth has been lower than expected. Such a low rate of economic growth puts severe pressure on the ANC's programme of social and economic transformation. A higher growth rate, combined with structural reforms, would assist in accelerating transformation and would be associated with the movement in the right direction of key transformation indicators, such as, reduced unemployment, reduced income and asset inequality, increased active economic participation by a larger proportion of South Africa's population and improved levels of human development.

The prolonged period of low economic growth can be ascribed to a combination both of global and domestic factors. At the global level factors include: a sharp decline in commodity prices, increased investor risk aversion, exchange rate volatility, rising opposition to trade flows, increasing opposition to international migration and low economic growth rates in South Africa's trading partners, including in the developed world, in the BRICS countries and more recently in the rest of Africa. Domestically, the economic growth rate was reduced by objective factors, such as, severe drought conditions, as well as subjective weaknesses, such as, electricity supply shortages and reduced confidence in the economy due to perceived rising corruption levels and increased political uncertainty. Although with regard to certain subjective factors South Africa has shown an admirable ability to self-correct, for example, through the stabilisation of the country's electricity supply and through the resilience of South Africa's Constitution, rule of law and related institutions.

In the context of the current prolonged period of low economic growth, the role of fiscal and monetary policy in providing short-term stimuli to the economy are both severely limited. With regard to fiscal policy, rising debt and debt repayments have necessitated strictly enforced expenditure ceilings, curbs on public sector employment and tax increases – all of which serve to dampen demand in the economy. With regard to monetary policy, interest rates have been at historic low levels for some time, but more recently have begun to rise in a bid to contain inflationary pressures.

The ANC is fully supportive of government's current programme to take active steps to avoid a rising national debt. Falling into a debt trap would mean that South Africa policy sovereignty would be compromised, an eventuality that would have the potential to jeopardise the ANC's programme of radical economic transformation. In fact, if South Africa's democratic state were to run into financial difficulty, this would strengthen the hand of internal and external forces who oppose the ANC's transformation agenda.

Given the reality of these limitations, the current phase requires that South Africa's macro economic policy stance be more effectively recalibrated to promote the kind of structural reforms required for inclusive growth. There must be greater policy emphasis on the long-term, structural, aspects of macroeconomic policy interventions. Fiscal policy, in particular should be utilised, as a key instrument of reconstruction and development and there must be a clear understanding of how the mobilisation of resources for such activities as infrastructure expansion and improved education systems can be better designed to ensure maximum economic impact for the poor and marginalised. Progressive tax measures should be re-enforced to ensure that wherever possible resources are mobilised to assist in improving broad-based access to effective public services.

Macroeconomic policy should also widen its focus to include confidence building in the wider South African economy. Effective economic leadership requires that confidence be built both among ordinary South Africans as well as among South African and foreign investors. The multiplier effects of government and public sector infrastructure investments will increase as investor confidence in the economy rises. More private sector investment will be stimulated, or crowded-in, by government and public sector infrastructure investment, as well as public-private partnerships, if confidence-building measures are prioritised.

The ANC will continue to take the lead in mobilising society around such confidence building measures as:

- Retaining or increasing South Africa's investment grade rating and working in a concerted manner to avoid any future investment rating downgrade, as a lower investment rating will result in higher borrowing costs, which would take resources away from development.
- Instituting improved governance at our State Owned Companies, such as, SAA, Land Bank, Eskom, Transnet, etc.
- Building on and extending the strengths of South Africa's financial sector, such as, through harmonising with best international practices to stamp out money laundering and corruption as

outlined in the Finance Intelligence Centre Act and related Amendment Bill once any outstanding constitutional issues have been resolved.

- Ensuring renewed discipline in the development and implementation of economic policy. There has been a degree of drift and indiscipline in policy formulation and policy implementation, such tendency needs to come to an end. For example, the newly developed draft Integrated Resource Plan (IRP) provides a rational basis for planning South Africa's future power generation mix and co-ordination with Eskom should be improved to avoid confusion over future Independent Power Producer investments.
- Showing greater co-ordination and unity of purpose among key government departments and actors, so that the developmental state is able to lead front the front and shape the country's national agenda.

Based on such confidence building interventions, the ANC government will be in a stronger position to provide leadership, and unite the broader South African community, including organized business and labour, around the overall vision of employment creation and inclusive growth. Progress is being made towards the implementation of the long-standing ANC commitment to put in place a national minimum wage, which will have the potential to lift wages for a large number of low-paid workers in the South African labour market, without reducing higher wages that have been bargained for by workers in other key sectors. Progress is also being made on improving the regulation of strike action, which while recognising the right to strike, will seek to put in place measures to avoid violent conflict in and around South Africa's workplaces.

Such important structural changes – as lifting the wages for many of the working poor and improved mechanisms to regulate workplace conflict – have the potential to increase worker, employer and investor confidence in the South African economy. At the level of macro economic policy, such structural changes can serve to accelerate the rate of inclusive growth in the economy.

4. THE VISION OF INCLUSIVE GROWTH AND EMPLOYMENT CREATION

To promote inclusive economic growth and employment creation the ANC resolved to implement the National Development Plan (NDP) at the Mangaung National Conference in 2012. The NDP states that: "In 2030, the economy should be close to full employment, equip people with skills they need; ensure that ownership of production is less concentrated and more diverse

(where black people and women own a significant share of productive assets); and be able to grow rapidly, providing the resources to pay for investment in human and physical capital.”

Between the current period and 2030, South Africa will find itself in a demographic ‘sweet spot’ as the population will have a proportionately high number of working-age people and a proportionately low number of young and old people. As a result, if employment can be generated for working-age people between 15 and 64 then there will be enough people of working age to support the non-working population. This demographic window closes before 2030 as the proportion of those aged over 64 will then increase significantly.

According to the NDP: *“South Africa’s demographic profile could help to tackle poverty and inequality... A similar profile provided to be a boon for economic growth in Asian countries. But reaping the benefits will only be possible if sound education and skills are provided. Jobs must follow. If South Africa fails to do this, its large youth cohort could pose a serious threat to social, political and economic stability.”*

Thus South Africa’s demographic situation poses an opportunity, if a proportionally larger working age population drives economic growth and development, and a risk, if large numbers of young people are not brought into employment. The ANC’s vision of inclusive economic growth seeks to change the structure of opportunity, remove the binding constraints on growth and increase overall employment in the economy.

A close analysis of relevant aspects of the NDP assists in identifying the key interventions which are required, over the next five-year period, in order to best advance the implementation of the ANC vision of economic growth and transformation. Although the NDP must be read as a whole, as it is an integrated development programme, the contents of the following chapters of the NDP are most important for the ANC’s programme of inclusive growth and employment creation:

- Economy and Employment (Chapter 3 of NDP)
- Economic Infrastructure (Chapter 4 of NDP)
- Transitioning to a low Carbon Economy (Chapter 5 of NDP)
- Inclusive rural economy (Chapter 6 of NDP)
- Building a capable state (Chapter 13 of NDP)

Two important cross cutting issues relevant to inclusive growth and employment creation are education and training policy (Chapter 9 of NDP) and policy with regard to Information and Communications

Technology (ICT) (Chapter 4 of NDP). Education and training and ICT provide crucial enabling inputs, which will empower all South Africans, particularly young South Africans, to fulfill their potential and participate in local and global economic activity.

Spatially, the NDP’s vision (as outlined in Chapter 8 of the NDP) is informed by the need for the country to tackle inherited spatial divisions and inequities. According to the NDP, *“South Africa’s spatial structure perpetuates exclusion. Distorted growth patterns cannot be ignored. They also worsen economic and logistical inefficiencies. Many places are not growing economically because of lack of infrastructure, inadequate skills, poor innovation capacity and weak governance. The locked-in potential of these areas could be released through targeted investment in economic and social infrastructure and institutional support.”* The ANC’s spatial vision for post-apartheid South Africa should play a pivotal role in guiding economic and social infrastructure investments and in shaping human settlements. As such a progressive spatial vision has the potential to increase equality and ensure more equal access to opportunity in society, as well as increase efficiency and lower transport cost with positive effects for private sector investment and for the real incomes of working class South Africans.

Geopolitically, the NDP’s vision is based on the understanding of the vast potential which exists for the South African economy if relations and linkages with the rest of the African continent are to be strengthened. South Africa should position itself as a gateway for investment in to the rest of Africa and a financial and skills centre capable of catalysing the kind of growth and development needed to further Africa’s ongoing renaissance.

As the NDP notes: *“The continent’s massive infrastructure deficit, though debilitating, also presents great opportunities... South Africa needs to adjust its focus in light of the changing global economic landscape. This is particularly urgent in trade and industrial policy. South Africa needs to redirect its attention to pursuing export opportunities in the economic power-houses of the future, many of them in emerging economies.”*

The global political economy based on extraction of raw materials and resources from the poor developing world, for sale to value-adding industries in the rich developed world, must be fundamentally challenged and altered. South Africa will seek to move up the value chain – beneficiating raw materials into higher value products, diversifying exports to include manufactured goods as well as services. In addition to the NDP, government’s Industrial Policy Action Plan (IPAP’s) articulates a range of interventions aimed at challenging and transforming the inherited global division of labour

by among others: promoting industrial investment, putting in place investment and export incentives, promoting fair competition and fair trade with a range of regions including in the rest of Africa, in emerging markets as well as penetrating developed world markets.

5. ECONOMY AND EMPLOYMENT

In order to achieve the NDP's target of reducing unemployment from 25% to around 6% by 2030 (in the process increasing net current employment levels by around 5 millions jobs), the economy needs to be guided onto a new, more inclusive growth path by the actions of a democratic developmental state. In particular, the unemployment experienced most intensely by the youth, women and the poor in rural areas must be directly addressed.

The NDP identifies the following key policy interventions to promote employment creation:

- the need to lower costs in the economy to make employment less costly and to assist poor households;
- lifting the rate of investment in the economy from around recent levels of around 17% of GDP to 30% of GDP by 2030;
- improved energy generation and distribution;
- improved urban planning approval processes;
- improved water supply and waste water management;
- improved transport and logistics;
- improved access to telecommunications services; and
- improved processes for water, minerals and environmental permits.

Certain key sectors also have significant employment-creation potential, such as, agriculture and agro-processing, minerals and metals, manufacturing, construction and infrastructure, the finance sector, retail and business, the tourism cluster and public employment schemes.

Agriculture and Agro-Processing

The ANC should prioritise the implementation of the NDP's key proposals for agriculture and agro-processing including:

- substantial investment in irrigation infrastructure;
- greater investment in providing innovative market linkages for small-scale farmers in communal and land reform areas, a process which has been advanced through the implementation of Agri-Parks in a number of regions around the country;
- preferential procurement mechanisms should be put in place to ensure that new agricultural entrants can gain market access;

- tenure security is vital to secure incomes for existing farmers and new entrants into agriculture; and
- policy measures should be put in place to increase the intake of fruits and vegetables and reduce the intake of saturated fats, sugar and salt as recommended by food dietary guidelines.

Minerals and metals

The ANC should prioritise the implementation of the NDP's key proposals for minerals and metals including:

- ensuring that minerals legislation provides a predictable, stable, competitive and certain regulatory environment for increased mining activity and investment;
- deepen linkages between mining and other sectors of the economy including linkages with upstream suppliers of mining services and with downstream producers, including the development of new uses for platinum by developing fuel cell technologies; and
- undertake research and development to find methods to lengthen mine life and use energy and water resources more efficiently.

With regard to the development of the natural gas sector specifically:

- legislation is required to attract private sector resources for exploration,
- the capability of the state-owned companies involved in this sector should be strengthened;
- such state-owned companies should be empowered for private sector partnerships;
- black participation in the sector should be facilitated;
- a gas-specific tax and royalty regime should ensure that the state is able to capture a high share of the resource rents through appropriate formulae;
- the sector's development should be aligned with overall industrial policy;
- the issue of the supply gap on refined petroleum products should be dealt with proactively, including a study on the need and timing for the building of new refining capacity, and the creation of appropriate storage and distribution infrastructure.

Manufacturing

The ANC should prioritise the implementation of the NDP's key proposals for manufacturing including:

- using public and private sector procurement to promote local production and diversification;
- appropriate incentive policies should continue to be developed as a key instrument of South Africa's IPAP, for example incentives have assisted to secure investment and employment levels in a number of key sectors, such as, the automotive sector and in clothing and textiles;

- research and development support for product development, innovation and industrial diversification;
- strengthening network infrastructure and skills supply; and
- monitoring and controlling the rise in administered prices.

Construction and Infrastructure

The ANC should prioritise the implementation of the NDP's key proposals for construction and infrastructure including:

- building project management capacity in the public sector, as well as capabilities for long term planning and monitoring and evaluation of expenditure patterns and construction work;
- support South Africa's civil construction and supplier industries in their export efforts, linked both with South Africa's capabilities as a financial centre within Africa and linked to South Africa commercial diplomatic relations;
- public funding should be expanded for alternative types of low-income housing that would generate direct demand for increased construction as well as for supplier industries,
- where appropriate and where prices will not rise unduly, set-asides should be considered in order to ensure that contracts are made available for black-owned companies and to promote broad based black economic empowerment linked to South Africa's construction industry and the country's on going infrastructure expansion;
- provide support for building supplier industries, such as steel, glass and cement; and
- promote energy-efficient building and building techniques, as well as home insulation and the installation of solar water heaters to promote employment and backward linkages to supplier industries.

The finance sector

The ANC should prioritise the implementation of the NDP's key proposals for the finance sector including:

- broadening access to banking services for poor people in South Africa and lower banking costs through a combination of increased competitive pressures and reducing infrastructure costs;
- strengthening credit extension to productive investments including for small and medium sized firms;
- provide small businesses and co-operatives with advisory and support services; and
- encourage partnerships between South African firms and banks to provide increased project finance for contracts on the rest of the African continent.

Retail and business services

The ANC should prioritise the implementation of the NDP's key proposals for the retail and business services sector including:

- competition in the sector should be enhanced and the retail sector should be encouraged to procure goods and services from local producers, especially small and expanding firms;
- investigate small-scale retail and cooperative buying, with the aim of reducing costs in townships and rural areas and stimulating employment;
- South African retail chains operating in other parts of the African continent should be encouraged to supply stores with South African products and also support the development of suppliers in other African countries;
- South Africa should become a leading supplier of information technology-enabled business process services globally; and
- Rising consumption of lower income groups in South Africa and the region more widely should stimulate retail employment and demand for supplier industries.

Tourism cluster

The ANC should prioritise the implementation of the NDP's key proposals for the tourism cluster including:

- mobilisation around the objective of increasing the total number of tourists entering the country each year as well as an increase in the average amount spent by each tourist;
- Transport and accommodation infrastructure must be put in place to facilitate increasing tourism numbers;
- Specific programmes must be put in place to encourage foreign business tourists, who generate significant multipliers;
- Working with neighbouring countries in Southern Africa to develop the region as an easy-to-traverse, international tourist destination rich in biodiversity and a wide range of attractive tourism products; and
- Working towards the transformation of ownership and broad-based empowerment in the tourism sector to ensure that black South African secure increased opportunities to fully participate in this important economic growth sector.

Public sector employment

While fiscal pressures have put downward pressure on employment levels in the public sector, the NDP makes an argument that employment can be created in entry-level public service activities, such as, auxiliary nursing, community health work and day care services for pre-schools. The NDP recommends that while

market based work opportunities should be the priority, it will still be essential that government should budget for a minimum of 2 million public sector employment opportunities each year.

Labour market reforms

The economy is skewing towards high skills and high productivity sectors because the lack of competition in a lot of sectors is keeping new entrants out. Lack of competition means that a lot of people will be going for the same jobs and the only way to secure them would be to up their skill-levels. The demand of skilled labour will in turn push up the salaries of the skilled population and thus raising the levels of inequality. For this reason the ANC's commitment to introduce minimum wage for the millions of working poor is an important counter-force aimed at reducing inequality and assisting poor families to meet rising living costs.

The NDP is also committed to improving skills development as part of the economic plan. It is key that, even though we support and putting in plans in place to support low skilled-labour intensive sectors to absorb the current pool of unemployed people, we equip our un-skilled/ uneducated population with the necessary skills to be able to participate in the type of economic environment that the country is moving towards.

The NDP advocates active labour market policies as part of the overall programme to lift employment levels in the economy, including:

- low cost and efficient public transport systems;
- better located human settlements closer to centres of economic activity;
- driver training for school leavers;
- a tax subsidy has been put in place to incentivise the employment of young people;
- subsidising a placement sector to assist matric graduates to find work opportunities
- promote increased employment at non-profit organisations through the Expanded Public Works Programme;
- Expand the system of learnerships and make training vouchers available to work seekers;
- Provide access to life long learning and expand further and higher education throughput and quality; and
- Adopt a more open approach to skilled immigration to enable expansion of high-skill supply in the short-term, in a manner that obviates displacement of South Africans

6. ECONOMIC INFRASTRUCTURE

The NDP notes that recent levels of investment in new economic infrastructure and maintenance of existing

infrastructure are inadequate. Increased coordination is required for expanded investment in energy, water, ICT and transport infrastructure. The Presidential Infrastructure Coordinating Commission (PICC) has begun to play an important coordinating role in ensuring the roll out of large-scale economic infrastructure projects and in driving transformation in a number of key sectors, such as in South Africa's construction sector. Increased investment in infrastructure will play an important role in reshaping the South African economy – directly, South Africa will be a like a construction site vitalised by a new wave of building activity, indirectly, further investment and employment opportunities will be made possible as the country's infrastructure base is expanded.

Regulatory frameworks need to be reviewed to improve the environment for infrastructure investment. As pertains to the energy sector, the NDP states that: *“The quality of market competition and regulation... has been far from optimal. The economy requires increased competition in electricity generation, along with better regulation of prices, supply and quality in electricity and petroleum products.”*

With regard to energy policy, the ANC needs to provide guidance on key policy trade-offs, such as:

- balance the desire to move to a lower carbon-intensive power generation mix with the imperative to maintain competitive electricity prices and secure electricity supply;
- balance the desire to move to a lower carbon-intensive economy with the priority of maximising the benefits from South Africa's world-class mineral wealth assets
- balance the state ownership of energy enterprises and utilities with effective regulation and the structural and market reform necessary to achieve greater competition and private sector involvement; and
- balance the employment to creating by new energy investments with possible employment losses that could result in the move away from coal mining.

With regard to investment in water infrastructure, the NDP identifies the following key policy issues:

- investments to support economic uses of water, including urban consumption, should be funded by users through appropriate pricing measures, which will include arrangements to ensure access to basic water services for poor households;
- enhanced management capacity will be needed to address increasing pressures on water resources;
- institutional arrangements need to be finalised, specifically on the number of water management areas to be established;
- strategic planning decisions are required to guide

water management in a number of key areas including in the Mpumalanga Highveld coalfields, Lephalale and its surrounds and the Olifants River in Limpopo and Mpumalanga;

- norms and standards for basic water supply should be coordinated and aligned with the financial provisioning to meet such requirements; and
- many small and rural municipalities require improved financial and technical capacity to manage water services better.

7. TRANSITION TO A LOW-CARBON ECONOMY

Clear direction is required on South Africa's transition to a low-carbon economy. To achieve a low-carbon growth path, South Africa requires a sustainable energy mix, which is informed by questions of economic viability, impact on industrial development, competitiveness, expanded access, fiscal constraints, and employment.

Key developments at a global level include:

- an improvement in renewable technologies resulting in lower costs,
- the increasing role of gas,
- impact of COP21 on coal usage and financing, and
- a cautious approach to nuclear post the Fukushima disaster in Japan, as well as the mixed delivery of projects that has led to cost-overruns.

At the domestic level in South Africa a key issue is the increased possibility of offshore gas and onshore (shale gas) exploration. For South Africa, gas has the potential to bring energy security, increased employment, fiscal benefits, which will help to fund social investments and reduce inequality. One of the impediments that has been holding back the vast economic potential of gas as an energy source in South Africa has been a lack of policy clarity and integration. For example, the separation of the Departments of Mineral Resources and Energy has resulted in a lack of an integrated approach. This is particularly critical since the DMR has responsibility for the law that enables such exploration and the DoE is at the coal-face of the use of petroleum-related outputs into the economy, including the regulation thereof. The ANC must take effective steps to ensure institutional alignment in order to advance the objectives of economic transformation.

On the energy front, the ongoing programme to bring on stream Independent Power Producers (IPP's) – including solar, wind, coal and gas – has been highly successful. It has led to increased investment and employment in the economy and has assisted, together with Eskom's Medupi and Kusile power plants still under construction, to ensure energy security for South

Africa for some years ahead. Unfortunately, a degree of confusion has emerged in the IPP programme, due to the likely cost burden it will place on Eskom as a purchaser of IPP-produced electricity. This has brought to the fore the unsustainability of the current model where Eskom is a generator of electricity whilst at the same time a buyer of electricity from competing generators. The ANC strongly supports the President's strong commitment in the 2017 State of Nation that Eskom must continue with the implementation of South Africa's ongoing IPP programme.

Another important issue for the ANC to highlight is the gains that can be made from improved energy efficiency, both by households and firms. Support measures must be put in place to effectively incentivise large-scale projects that will secure energy efficiency gains, such as, the installation of co-ordination switches on household geysers. This to be further enhanced by increased resources into research on this critical aspect.

Proposed Key Interventions

The Integrated Energy Plan (IEP) and the Integrated Resource Plan (IRP) are required in order to ensure that planning is taking place on a rational basis, informed by all the facts. The plans should be regularly updated and there should be full adherence to prescribed procedural disciplines, such as timeous, inclusive and transparent public consultation.

The updated IEP and IRP will assist South Africa in the following:

- assessing whether future coal-related investments are appropriate or even desirable, including the replacement of coal-fired power station capacity that will be retired;
- there should be an increased role for gas, for example through the proposed liquefied natural gas (LNG) IPP programme, the procurement programme for which is in the process of being initiated, which in the future may be complemented by domestic gas resources;
- a carbon tax can be introduced in a way that strikes a balance between achieving lower carbon outcomes and continued and expanded industrial production;
- South Africa is in a position to benefit from the research, technology and manufacturing associated with emerging green-energy technologies;
- exploration for offshore gas and onshore gas (shale gas) resources could be accelerated without undermining the country's environmental resources;
- nuclear power generation should be included in the mix, based on the requirements of affordability, as well as procedural fairness and transparency;
- the correct balance is being struck between current and future refineries, and the importation of

petroleum products. In this regard, South Africa unresolved Clean Fuel policy should be urgently finalized and clear decisions taken on the issue of new refinery investment;

- municipalities are playing an effective role in enabling investments in distributed renewable energy projects based on municipal waste streams. To achieve this, municipalities require a clear regulatory framework that mitigates the risk associated with the loss of electricity-related revenue. In addition, programmes are required to build the institutional capacity required to unlock such projects, possibly assisted by a central institution dedicated to developing such capacity.

Institutional and Regulatory Issues

The ANC should ensure that in order to stimulate higher levels of inclusive growth and generate more employment it is important that the energy sector's institutional and regulatory environment be explicitly aimed at achieving these objectives. In this regard it may be necessary to revisit the current structure where Eskom plays a role both as a producer and buyer of electricity. It might be necessary to separate the generation and transmission responsibilities of Eskom, particularly as the current economic structure has the potential impact of undermining government's IPP programme and creating uncertainty.

Another issue is the need to strengthen the institutional capacity of the Department of Energy and related regulatory bodies. For example, as the MPRDA will be separated in future as discussed in the NGC 2015 between mining and petroleum, the Department of Energy needs to start developing effective capacity in this regard. More importantly, the DoE needs to strengthen its capacity on the economics of energy so that it is better able to assist Government in the appropriate strategies for ongoing development of energy policies. The NDP also makes specific proposals on work to be done by the National Research Foundation, Water Research Commission, Agricultural Research Council and the National Disaster Management Centre. Institutional capacity is also required in order to assist municipalities to drive more waste recycling methods to ensure more effective utilisation of land resources.

8. INCLUSIVE RURAL ECONOMY - TRANSFORMING THE LIVES OF THE RURAL POOR

At the heart of the economic transformation programme is a strong integrated and inclusive rural economy. Our rural communities are still characterized by many households who are trapped in a vicious cycle of poverty.

Despite the transition to democracy and attempts by the democratically elected government to redress the imbalances of the past, rural areas have remained relatively poor and under-resourced. Most of the small scale and homestead farmers in the country are still located within the former 'homeland' areas.

They face many challenges that reinforce their marginal status. These include the communal land tenure system, a degraded natural resource base, limited resources, reliance on rain-fed agriculture, lack of access to capital, poor supporting infrastructure, limited access to information and knowledge of how to manage a business, limited access to markets and, increasingly, the impact of extreme weather events. In many of our documents we have acknowledged that rural communities are essential to creating an economy that is inclusive and caring. A healthy rural economy has carryover effects on the employment, inequality, trade, poverty reduction, food security and can be directly linked to our growth and development. This means that South Africa's rural economy revival requires the right public investments as these will provide a vital source of new economic opportunity for rural communities.

Both restitution and redistribution of land has not resulted in effective production on such land. This is a situation that clearly has to change. Up scaling efforts towards quality education, health care and social security will support the development of human capital amongst South Africa's rural communities. More can be done in improving access to basic social and infrastructural services. All this would be underscored by efforts to lower the rural-urban drift, poverty and it will contribute to the creation of sustainable livelihoods. While homestead level production has made a contribution to household food security, it has contributed very little marketed produce and is exceptional vulnerable to climate and market shocks. Despite the apparent political will and efforts by the government to address this, the small-scale farming sector in South Africa has grown within the national context.

We need to take concrete steps to:

- Promote agricultural development based on successful land reform;
- Help the small scale and household farming sector in South Africa to generate marketed agricultural produce;
- Enhance telecommunications in rural areas;
- Open new markets for rural communities;
- Expand access to health care services, improve education, and housing;
- Strengthening alternative finance and vesting private property rights to land reform beneficiaries in a way that does not burden beneficiaries with

high levels of debt;

- Increase and refocus investment in research and development; and
- Extension services, in partnership with experienced farmers must be sought

There has been a steady decline in agricultural production and South Africa has moved from a net exporter to a net importer of food. This has occurred way before the drought experienced in 2014/15. South Africa is challenged by both a current account deficit and a balance of trade deficit. The potential confluence of forces associated with a national drought, a simultaneous spike in global food prices within a context of the negative balance of trade and a current account deficit, present severe food security challenges for the poor.

The nature of farming in South Africa has changed. Farming has become more of a business and less of a way of life. Farmers compete in a global market place, their input costs have increased. Some of these have been fairly sudden, notably fuel and power. Price volatility of agricultural produce has also provided challenges and profit margins in the agricultural sector. This has resulted in the demise of the smaller scale commercial farmers. There has also been a disincentive to re-investment and to infrastructure development on the farms. Despite this, there are opportunities. The use of organic food and 'green products' is one of these opportunities. These do provide a special opportunity for smaller producers who are innovative. An added bonus is that the environmental impact, both in terms of GHG emissions and biodiversity loss, of smaller scale operations could be significantly lower than the traditional large scale commercial agriculture.

For the small scale emerging commercial farmer to succeed within the context of a dominant, efficient, large scale commercial farming sector and the increasing vagaries of the weather will require a new approach that could incorporate technological and systems innovation, increased cooperation between small scale farmers and possible partnerships with large farmers and farming institutions. Small scale and homestead 'farmers' must not be treated as largely passive bystanders. We must build the capacity of the small-scale farmers for a real partnership between the small scale commercial and household level farmer and the government. Building a true partnership is likely to prove an important focus for innovative market linkages. This will require improved road and rail infrastructure to usher farm products to and through the value chain and to markets. Linking farmers to markets will also require infrastructure for processing and value addition. Co-operatives will be important in this regard, to help small producers

achieve economies of scale.

The ANC must continue to drive land reform and agrarian transformation in order to fight poverty and to guarantee food security. This we can do by playing a leading role in rural development by supplying tillers with implements, seed, tractors and dams to save the soil. We must substantially increase investment in water resource infrastructure for these communities in line with the principles to promote the resilience to the effects of climate change.

9. BUILDING A CAPABLE STATE

The ANC fully supports the NDP's vision that a capable state is required to lift the South African economy onto a new inclusive and employment-creating growth path. Many concrete interventions are required in order to build a professional public service capable of playing a transformative and developmental role, capable of putting people first, in the spirit of *Batho Pele*.

Chalmers Johnson in his 1982 book, *MITI and the Japanese Miracle: The Growth of Industrial Policy*, cited that the fundamental problem of a state guided system is the relationship between state bureaucracy and privately-owned business. Johnson described the essential features of the Japanese developmental state thus: "*The first element of the model is the existence of a small, inexpensive but elite bureaucracy staffed by the best managerial talent available in the system.... The second element... is a political system in which the bureaucracy is given sufficient scope to take initiative and operate effectively.... The third element of the model is the perfection of market-conforming methods of state intervention in the economy... The fourth and final element of the model is a pilot organization like MITI... MITI's experience suggests that the agency that controls industrial policy needs to combine at least planning, energy, domestic production, international trade, and a share of finance (particularly capital supply and tax policy)*".

In the South African context, the building of a developmental state will require a radical strengthening of the capability of the public sector, to enable the state to have this effective bureaucracy; a proper architecture that enables the necessary political oversight but allowing this bureaucracy to have the drive and innovation necessary for the implementation of the programmes so defined by the state; ensuring that all tools and institutions for state intervention in the economic are understood and are in alignment, whether through industrial or competition policy, as we as fiscal and monetary policy, to direct economic actors in particular the private sector, where most of the resources sit, to move in a certain direction to ensure the necessary economic outcome; increase the level of planning and co-ordination, which in the case of South

Africa requires the strengthening of the capability for economic planning and co-ordination.

Some of the proposals that would strengthen the developmental state in South Africa, include:

- continued strengthening of the public sector, particularly economic institutions for the purposes of development. This requires a detailed review of each of the economic departments, particularly of the senior bureaucracy;
- the appointment of capable and professional public servants with the ability to deal with the complex and integrative questions that emerge from the perspective of managing a developing and transforming economy;
- continuous identification of market-conforming tools or incentives that drive particular development outcomes. This has been used through the public infrastructure process to support industrialisation, however, more is needed to drive the direction of the private sector; and
- formalise economic co-ordination, through the Presidency and the National Planning Commission.

The interface between political principals and administrative systems needs to be stable and well regulated. The NDP argues that the current emphasis on “*political deployment*” need to be replaced by a focus on building a professional public service that serves government correctly, but which is insulated from problems associated with political patronage. Talented young people should be attracted into the public service, as a place where they can serve the country and build effective careers. Systems must be put in place to ensure that technical, specialist and professional skills are nurtured and developed among public servants. Relations between the three spheres of government must be improved. Roles and functions between various spheres of government should be clarified and national government should intervene to mediate disputes in this regard and enable consensus to emerge.

Similarly, state owned companies (SOC's) require clear, public interest mandates, which are periodically reviewed, and governance structures, which enable them to balance and reconcile economic and social objectives. To improve the stability and governance of SOC's the NDP recommends that shareholder and policy ministries should jointly appoint boards of SOC's and these boards should appoint their chief executives. This will ensure clearer lines of accountability between government's and SOC boards and between SOC Boards and their chief executives.

The financial viability of SOC is crucial as a number of them play an important role in providing the

expanded infrastructure needed for inclusive growth and employment creation. The SOC's also assist in the provision of services, such as, electricity and transport services. To assist poor households certain basic service need to be subsidised or provided free of charge. The NDP endorses such pro-poor interventions and further recommends that for the sake of transparency and in order to be able to sustain such interventions, commercial responsibilities should be clearly separated from social goals through transparent mechanisms, such as, fiscal transfers and subsidies for service provision to poor households.

10. MOBILISING SOCIETY BEHIND THE ANC'S PROGRAMME OF ECONOMIC TRANSFORMATION

The ANC has made numerous interventions which have improved the lives of millions of South Africans since the dawning of democracy in 1994, but millions of mainly black South Africans continue to live in poverty and destitution. To overcome this legacy, the ANC must now lead society into a second phase of South Africa's democratic transition and mobilise society around a programme of radical economic transformation, built on the following key pillars:

- A reconstructive macroeconomic framework calibrated to drive reconstructive policies in a sustainable manner funded by a well-managed fiscus and well-governed state owned enterprises. This will build confidence and enhance the multiplier effects of ongoing large-scale investments in public infrastructure.
- A strengthened package of radical economic interventions aimed at increasing access to education, employment opportunities and land, as well as, subsidised services for poor households and a minimum wage regime to assist the working poor.
- Strengthened relations with the private sector to encourage employment-creating projects in a range of key sectors, including mining, manufacturing, agriculture, tourism, construction, retail and finance. Such interventions will seek to incentivise private sector behaviour towards inclusive growth and employment creation, but will also entail an increased focus on deterring anti-competitive and monopolistic conduct and will strengthen the capacity of the state for partnering and monitoring private sector activity.
- The reassertion of the ANC's vision and leadership of society through credible interventions to deracialise the South African economy, create significantly higher levels of employment and encourage inclusive economic growth, which will improve the lives and opportunities for all South Africans.